

Lean Procurement

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DEMAND-DRIVEN SUPPLY CHAINS AND LEAN PROCUREMENT

In today's demand-driven manufacturing and supply chain world, a company faces growing challenges around market volatility, long lead times and forecasting errors. The inventory management decisions can make or break the firm's financial bottom line. Lean procurement principles combined with Oracle lets the company meet these daily challenges and protect the bottom line every day.

THE CHALLENGES OF SUPPLY CHAIN MANAGEMENT IN A DEMAN DDRIVEN WORLD

In today's volatile market, forecast accuracy is almost non-existent. Companies expect their procurement and supply chain organizations to provide purchased materials and assemblies on time, all the time, to meet their customer demands. Faced with these poor market forecasts buyers often over buy requirements. This creates excess inventories.

Purchasing organizations cannot afford long material lead-times. And if suppliers cannot deliver consistently on time, they will be replaced. Although better than traditional procurement practices, today's "pull" supply chain replenishment processes are not optimized, collaborative or effective. What is the bottom line for the company? Inventory management decisions can make or break the company's return on assets (ROA), an increasingly important financial metric.

THE OBJECTIVE: A DEMAND-DRIVEN SUPPLY NETWORK

Today, the buyer's responsibilities have changed dramatically. Beyond simply finding the right materials and services at the best price, buyers play a critical part in improving the flow of information and materials throughout the supply chain. Through these demand-driven supply networks (DDSN, aka demand-driven supply chains, (DDSC)) their goals are to accomplish the following:

Preventing Shortages

Supply chain deliveries must be flexible in order to meet the changing demands of the demand driven enterprise. In addition to the sheer cost of disrupting production, critical shortages can damage existing customer relationships and significantly weaken market credibility.

Reducing Inventory Investment

Inventory turns of 100 or more should be commonplace, not the exception. Companies are under increasing pressure to reduce inventory levels. In the demand-driven enterprise, inventories should ebb and flow with the changes in customer demand. For example, a Rs.500 crore firm can reduce inventory by Rs.34 crore and achieve a

Rs.2.4 crore inventory carry cost savings. At the same time, the firm can lower administrative costs by about 10 percent (Rs.3.4 crore) by eliminating 70 percent of all invoices and 80 percent of discrete purchase orders after operating in an environment of 8 to 10 inventory turns.

Trimming Supply Side Lead Times

Long material lead-times should be eliminated. By utilizing postponement strategies, lean procurement solutions provide a more responsive supply chain.

Obsolete Practices

The old way of doing business consists of buyers managing MRP forecasts and communicating requirements to suppliers via phone, fax and e-mail. Spreadsheets and manual reports are passed between the trading partners. These manual processes are slow and cumbersome. They cannot support today's demand-driven enterprises. Supply chain procurement professionals spend too much time "putting out fires" and reacting to daily problems. They cannot seem to find the time to develop strategic relationships with suppliers and deploy improved business processes that eliminate shortages.

THE SOLUTION: SUPPLY CHAIN EVENT MANAGEMENT THROUGH LEAN PROCUREMENT

Advances in technology and process are ushering in a new era in supply chain improvement. With lean procurement the company can proactively manage supply chain events using Supply Chain Event Management (SCEM) principles and lean procurement practices to achieve the following:

- Remove the obstacles to the free flow of information to the supply chain;
- Create real-time visibility into inventory in motion;
- Transition the supply chain from "push" to "pull" consumption based replenishment models;
- Manage by exception by providing the buyers and planners with proactive real-time, exception messages that strengthen their replenishment processes;
- Eliminate the long lead-times for critical materials and assemblies;
- "Cover the upside" of the material forecast;

THE LEAN PROCUREMENT SOLUTION

Lean procurement is based on three core principles that are derived from demand driven manufacturing and supply chain initiatives:

1) Migrate from "push" to "pull"

Strengthen and improve the "pull" supply chain processes by deploying supply chain event management solutions that enhance collaboration with the suppliers. Operating in real-time mode there are collaboration portals that connect suppliers and partners – directly to their "pull" business processes anytime, anywhere. These collaboration portals allow buyers and their suppliers to communicate the following supply chain "exception based" signals in real-time.

- **Proactive Alerts:** These alerts notify the trading partners of a potential stock-out. As an example, a proactive alert can notify a trading partner of a potential stock out, e.g., the Kanban Replenishment Capacity program allows you to track the production capacity of a Kanban and compare it to the demand pattern of the item. The system displays an alert for all items that cannot meet the new demand.
- **Reactive Alerts:** Alerts that identify critical supply chain exceptions. For example, a reactive alert can identify critical supply chain exceptions, such as late shipments, past due Kanban acknowledgements and supplier "under-commits" to the MRP forecast.
- **Execution Alerts:** These alerts provide updates on business process transactions. Consider the example where an execution alert is used to provide updates on business process transactions such as Advance Ship Notices (ASN).

2) Develop a flexible and responsive supply chain

Help the procurement professionals eliminate long material lead-times by adopting postponement strategies. Buyer Workspace and Supplier Self-Service collaboration portals, buyers can:

- Deploy a more responsive supply chain. When customer demand unexpectedly goes up, the supply chain can meet that increase. When forecasts go down you are not left with excessive levels of inventory;
- Reduce the long lead-times normally associated with offshore procurement;
- Proactively manage potential shortages through automated real-time forecast collaboration solutions;
- Receive proactive alerts when suppliers cannot support requirements;

3) Eliminate all waste in the procurement cycle

Without lean procurement, buyers spend the majority of their time on nonstrategic processes like tracking down order status, purchase order entry, and maintaining “private” spreadsheets for analysis. As a result, they miss opportunities for mutually beneficial supplier negotiations and process efficiencies.

- Eliminate discrete purchase orders;
- Use Self-Service to grant suppliers 24 x 7 x 365 access via the web so they can respond electronically with critical business process information. This ends over-reliance on phone, fax and e-mail;
- Use enhanced workflow in the Purchase Order acknowledgement approval processes;
- Develop “no touch” processes that automate and eliminate 50 percent of purchase orders and 70 percent of all invoices;

By adopting these strategies, procurement professionals can spend 90 percent of their time on strategic activities.

GETTING STARTED WITH A LEAN PROCUREMENT PARTNER

An Oracle partner specialized in lean procurement can help in:

- Setting up Buyer and Supplier Collaboration portals with the internal and external users;
- Provide up-to-date training on consumption-based replenishment processes;
- Train the internal and external users and suppliers;
- Conduct business assessment reviews of the internal facility;

Conclusion

One of the main characteristics of lean procurement is benchmarking. Look at results from companies who have implemented Lean Procurement and their business results. One company reduced supplier lead times by 70 percent in ninety days. Another reduced WIP inventory by 25% while increasing throughput by 700 percent. Still another reduced manufacturing cycle time from 60 days to 5 days and sold a warehouse and the examples continue. By following practices of others and implementing own innovations, coupled with an Oracle partner will help in achieving excellence in lean procurement.

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